



**CITY OF HAMILTON**  
**CORPORATE SERVICES DEPARTMENT**  
**Financial Planning, Administration and Policy Division**

<b>TO:</b>	Chair and Members Audit, Finance and Administration Committee
<b>COMMITTEE DATE:</b>	July 11, 2019
<b>SUBJECT/REPORT NO:</b>	Tax and Rate Operating Budget Variance Report as at April 30, 2019 - Budget Control Policy Transfers (FCS19055) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Katie Black (905) 546-2424 Ext. 4169 Tom Hewitson (905) 546-2424 Ext. 4159
<b>SUBMITTED BY:</b>  <b>SIGNATURE:</b>	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department

**RECOMMENDATION(S)**

That, in accordance with the “Budgeted Complement Control Policy”, the 2019 complement transfer transferring complement from one department / division to another with no impact on the levy, as outlined in Appendix “C” to Report FCS19055, be approved.

**EXECUTIVE SUMMARY**

Staff has committed to provide Council with three variance reports for the Tax Supported and Rate Supported Operating Budgets during the fiscal year (Spring / Fall / Year-End). This is the first submission for 2019 based on the operating results as of April 30, 2019. Appendix “A” to Report FCS19055 summarizes the Tax Supported Operating Budget projected year-end variances by department and division while Appendix “B” to Report FCS19055 summarizes the projected year-end variances of the Rate Supported Operating Budget by program.

Both Tax and Rate Supported Operating Budgets are projecting positive variances of \$2.2 M and \$4.6 M, respectively.

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The projected Tax Supported Operating Budget surplus of \$2.2 M is composed of a surplus in Capital Financing of \$4.9 M and deficits in Boards and Agencies of -\$2.5 M (Conservation Authorities) and City departments of -\$0.2 M. The projected Rate Supported Operating Budget Surplus of \$4.6 M is a result of projected surplus in Operations of \$2.7 M and Capital Financing of \$1.9 M

Of note, the Tax Supported Operating Budget projected surplus of \$2.2 M includes a projected shortfall in provincial funding of -\$2.9 M as detailed in Report FCS19053 “Impact of Provincial Policy Changes” presented to GIC on June 19, 2019. Healthy and Safe Communities department (HSC) is projecting to be able to offset a significant amount of the shortfall. The HSC department projected deficit for 2019, including the funding shortfall, is -\$1.0 M.

Additional details are presented in the Analysis and Rationale for Recommendations section of Report FCS19055.

#### 2019 Budget Transfers

In accordance with the “Budget Control Policy” and “Budgeted Complement Control Policy”, approved by Council in February 2012 and March 2018, staff is submitting five items recommended for transfer. The complement transfers, identified in Appendix “C” to Report FCS19055, moves budgeted complement from one department / division to another to accurately reflect where the staff complement is allocated within the department / division for the purpose of delivering programs and services at desired levels. The budget complement transfers identified were not realized at the time of the 2019 budget submission. However, these transfers will amend the 2019 operating budget once approved with no impact on the levy.

**Alternatives for Consideration – None.**

#### **FINANCIAL – STAFFING – LEGAL IMPLICATIONS**

Financial: The financial information is provided in the Analysis and Rationale for Recommendation section of Report FCS19055.

Staffing: N/A

Legal: N/A

#### **HISTORICAL BACKGROUND**

Staff has committed to provide Council with three variance reports on the Tax and Rate Operating Budget during the fiscal year (Spring / Fall / Year-End). This is the first submission for 2019 based on the operating results as at April 30, 2019.

**POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS**

N/A

**RELEVANT CONSULTATION**

Staff in all of the City of Hamilton departments and boards provided the information in Report FCS19055.

**ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)**

The following provides an overview of the more significant issues affecting the 2019 projected tax and rate operating budgets. Table 1 provides a summary of the departmental results as at April 30, 2019.

**Table 1**  
**CITY OF HAMILTON**  
**2019 Projected Year-End Variance**  
**(\$000's)**

	2019 Approved Budget	2019 Year-End Forecast	2019 Variance (Forecast vs Budget)	
			\$	%
<b><u>TAX SUPPORTED</u></b>				
Planning & Economic Development	29,672	29,046	626	2.1%
Healthy and Safe Communities	245,134	246,176	(1,042)	(0.4)%
Public Works	242,414	242,302	112	0.0%
Legislative	5,019	5,019	0	0.0%
City Manager	11,759	11,549	210	1.8%
Corporate Services	30,207	30,138	70	0.2%
Corporate Financials / Non Program Revenues	(25,500)	(25,379)	(121)	(0.5)%
Hamilton Entertainment Facilities	3,912	3,912	0	0.0%
<b>TOTAL CITY EXPENDITURES</b>	<b>542,617</b>	<b>542,763</b>	<b>(146)</b>	<b>(0.0)%</b>
Hamilton Police Services	164,290	164,290	0	0.0%
Library	30,700	30,700	0	0.0%
Other Boards & Agencies	13,095	15,631	(2,536)	(19.4)%
City Enrichment Fund	6,116	6,116	0	0.0%
<b>TOTAL BOARDS &amp; AGENCIES</b>	<b>214,201</b>	<b>216,737</b>	<b>(2,536)</b>	<b>(1.2)%</b>
<b>CAPITAL FINANCING</b>	<b>129,969</b>	<b>125,114</b>	<b>4,855</b>	<b>3.7%</b>
<b>TAX SUPPORTED</b>	<b>886,787</b>	<b>884,614</b>	<b>2,173</b>	<b>0.2%</b>
<b>RATE SUPPORTED</b>	<b>0</b>	<b>(4,566)</b>	<b>4,566</b>	<b>N/A</b>
<b>TOTAL</b>	<b>886,787</b>	<b>880,048</b>	<b>6,739</b>	<b>0.8%</b>

( ) - Denotes unfavourable variance

## **Tax Supported Operating Budget**

### Departmental Budgets

Appendix “A” to Report FCS19055 summarizes the Tax Supported Operating Budget variances by department and division.

Further to direction from Council for the 2018 Budget, the City has changed the reporting methodology and the budgeted gapping savings of -\$4.5 M previously held in Corporate Financials has been distributed to the departments. It is projected that at year-end the corporate wide gapping actuals will be -\$4.0 M, a deficit of -\$0.5 M.

Each department's gapping variance (target versus projection) is detailed in the following sections along with other departmental highlights.

### Planning and Economic Development

The Planning and Economic Development is forecasting a favourable variance of \$0.6 M, which is primarily driven by a projected surplus of \$0.4 M in Transportation Planning and Parking. A surplus of \$0.6 M in revenues is anticipated in Parking operations, plate denial fines and site plan control as well as savings of \$0.2 M in contractual and office rent obligations which are partially offset by pressures from gapping of -\$0.3 M and -\$0.1 M due to computer software and system upgrades.

The Planning division is projecting a surplus of \$0.1 M which is driven by gapping savings. Revenues are forecasting to be on target and are offset by a transfer to the development fee stabilization reserve. The Building division is forecasting a year-end surplus of \$0.1 M. This is driven by favourable savings in property maintenance recoveries and gapping savings. The Growth Management division is projecting an overall surplus of \$52 K due to savings in gapping.

The Licensing and By-Law Services division is projecting an overall deficit of -\$0.1 M due to pressures in gapping, recoveries, material and supplies, financial and vehicles expenditures. This is partially offset by forecasted surplus in revenues in Licensing and Animal Services.

The remaining divisions have small favourable variances totalling a combined positive variance of less than \$0.1 M.

The Planning and Economic Development departmental gapping target is -\$0.8 M for the 2019 year. As at April 30, 2019, the projected year-end gapping amount is -\$0.4 M, resulting in a projected deficit of -\$0.4 M.

## Healthy and Safe Communities

Overall, the Healthy and Safe Communities Department is projecting an overall deficit of -\$1.0 M. This variance includes estimated Provincial funding shortfall of -\$2.9 M, previously reported to the General Issues Committee on June 19, 2019 through Report FCS19053 and included in a number of the divisional explanations below.

The Hamilton Paramedic Services division is expecting a -\$1.6 M unfavourable variance due to the expected -\$1.9 M shortfall in Ministry funding and various operating costs projected to be higher than expected. The unfavourable variance is offset partially by a favourable variance in employee related costs.

The Long-Term Care division is forecasting a deficit of -\$0.5 M due to employee related costs and the discontinuation of roughly -\$0.1 M in Ministry funding for various programs. This is offset partially by a favourable variance due to savings in various operating costs. The Ontario Works (OW) division is also forecasting a deficit of -\$0.1 M due an anticipated reduction of -\$1.5 M in Provincial funding which is largely offset by gapping and maximizing additional available subsidies.

The Hamilton Fire Department is projecting a negative variance of -\$0.4 M due to employee related costs from settled contracts and pressures in facility costs.

Partially offsetting the deficits in other divisions is an expected favourable variance of \$1.0 M in Housing Services. This surplus is attributed to Social Housing prior year reconciliations, gapping and housing allowances and rent supplement. Changes to provincial funding were minimal (-\$0.1 M) with a slight reduction in the Strong Communities Rent Supplement Program.

The Recreation division is forecasting a positive variance of \$0.3 M to year-end. Savings due to gapping and operating costs are offset by a loss of revenue because of temporary closures. Also, a favourable variance in hydro, offset by unfavourable variances in building cleaning, golf revenues due to weather and facilities costs for re-opening for operation at the Dundas Grifmire Arena.

Public Health Services is projecting a surplus of \$0.2 M primarily due to gapping, offset by revenue pressures from a funding shortfall (-\$0.4 M) and program related operating costs. The Children's Services and Neighbourhood Development division projects a positive variance of \$0.1 M due to gapping savings and various operating costs. Additional Provincial funding offset with additional program expenses.

The Healthy and Safe Communities departmental gapping target is -\$0.9 M for the 2019 year. As at April 30, 2019, the projected year-end gapping amount is -\$1.6 M, resulting in a projected surplus of \$0.8 M.

## Public Works

Overall, the Public Works Department is forecasting a favourable variance of \$0.1 M. There are several contributors, both favourable and unfavourable, across the divisions that are leading to this projected surplus.

Transportation Operations and Maintenance division is forecasting an overall positive variance of \$1.2 M. Of this surplus, \$1.0 M is due to gapping in the timing of vacancies / hires and savings from restructuring. The remaining favourable variance is attributed to the new Street Lighting Review and Evaluation Fee from subdivision agreements.

Environmental Services division anticipates a favourable variance \$0.9 M due to \$1.5 M in gapping savings due to retirements, resignations and vacancies. Partially offset by increased contractual obligations at the Materials Recycling Facility (-\$0.3 M), increased costs for handling leaf and yard waste at the Glanbrook Landfill composite site (-\$0.2 M) and transfer station / Community Recycling Centres (CRC) operations due to Central Composting Facility (CCF) shutdown and restart (-\$0.1 M).

The Transit division is projecting an unfavourable variance of -\$1.5 M. Unfavourable net gapping of -\$3.0 M due to employee related costs, largely overtime and sick time. Various other variances totalling -\$0.4 M contribute to the overall deficit. This is partially offset by favourable transit fare revenues of \$1.5 M due to continued ridership uptake and positive fuel costs of \$0.4 M. Forecasts for the DARTS contract are not available at the time of writing this report.

Energy, Fleet and Facilities division anticipates unfavourable gapping as well as the cost of holding unbudgeted vacant facilities contribute to a total divisional deficit of -\$0.5 M.

The Public Works departmental gapping target is -\$2.0 M for the 2019 year. As at April 30, 2019, the projected year-end gapping amount is -\$1.1 M, resulting in a projected deficit of -\$0.9 M.

## Legislative

The Legislative budget is projected to be on budget for 2019 with potential unfavourable gapping being offset by other savings.

The Legislative departmental gapping target is -76 K for 2019. As at April 30, 2019, the projected year-end gapping will result in a deficit. However, it is expected this will be offset by favourable savings in other areas.

#### City Manager's Office

City Manager's Office projects a favourable variance of \$0.2 M primarily related to favourable gapping in the Strategic Partnerships and Communications and Human Resources divisions somewhat offset by recruitment services and staff transitioning costs. Revenue Generation has decreased projected revenue which is offset by a reduction in program expenses.

The City Manager's departmental gapping target is -\$0.2 M for the 2019 year. As at April 30, 2019, the projected year-end gapping amount is -\$0.2 M.

#### Corporate Services

Corporate Services is forecasting an overall positive variance of \$0.1 M. A favourable variance of \$0.2 M is projected in Financial Services mainly due to gapping and Taxation revenues, partially offset by an unrealized reserve recovery. Information Technology is expecting a deficit of -\$0.1 M due to additional software support and unfavourable gapping. The Customer Service and POA division is also forecasting a small negative variance to year-end due to the Call Handling Loan Repayment of -\$0.1 M, partially offset by favourable gapping and savings in lease and service contracts from software and licencing. A slight unfavourable combined variance across the other divisions offsets the overall surplus.

The Corporate Services departmental gapping target is -\$0.6 M for the 2019 year. As at April 30, 2019, the projected year-end gapping amount is -\$0.7 M, resulting in a projected surplus of \$0.1 M.

#### Corporate Financials / Non Program Revenues

Corporate Financials / Non Program Revenues show a -\$0.1 M combined unfavourable variance. Contributing factors are identified as follows:

##### Corporate Financials

##### Corporate Pensions, Benefits and Contingency

The projected unfavourable variance in the Corporate Pensions, Benefits & Contingency of -\$0.2 M is a result of unbudgeted legal expenses that have been incurred.

##### Corporate Initiatives

Corporate Initiatives are projected to be on budget for the year.

Insurance premiums and WSIB are expecting a combined unfavourable variance of - \$5.0 M which will be offset with corresponding recoveries from reserve for a zero net levy impact.

#### Non Program Revenues

Non Program Revenues show a projected favourable variance of \$0.1 M. This is the result of a favourable variance of \$0.4 M expected in Tax Remissions and Write Offs as a result of rebates being lower than anticipated. Partially offset by a projected unfavourable Hydro Dividend to unanticipated administration fees.

#### Boards and Agencies

In Boards and Agencies, there is a projected unfavourable variance of -\$2.5 M. The City's judicial review of the unsuccessful Lands and Mines Commissioner's apportionment appeal was recently dismissed by the Courts. Staff has withdrawn the appeal for the Niagara Peninsula Conservation Authority which will result in an -\$0.8 M shortfall. Staff is still reviewing the apportionment calculations for the other Conservation Authorities. However, if these are withdrawn as well, this will result in an additional \$1.7 M shortfall.

#### Capital Financing

Capital financing is projecting a year-end surplus of \$4.9 M due to the delay in debt issuance with projected principal and interest savings. This includes a \$2.0 M transfer to the Unallocated Capital Levy Reserve at year-end as approved in the 2019 Tax Capital Budget (Report FCS18097). Without this transfer, the overall Capital Financing surplus would be \$6.9 M.

#### Rate Supported Operating Budget

As at April 30, 2019, the Rate supported operating budget is projecting a favourable variance of \$4.6 M due to savings in overall program expenditures of \$4.7 M and an unfavourable revenue projection of \$0.1 M.

Appendix "B" to Report FCS19055 summarizes the Rate Supported Operating Budget results by program.

#### Expenditures

Program spending for 2019 is projected to be a favourable variance of \$4.7 M or 2.1% of gross budget by year-end. The driving factors behind this favourable expenditure variance are shown in Table 2.



**Table 2**

<b>Expenditure Type</b>	<b>Variance (\$000's)</b>
Contractual	2,516
Agencies and Support Payments	250
<b>Total Operating</b>	<b>2,766</b>
Debt Charges	5,463
DC Debt Charges Recoveries	(3,562)
<b>Capital Financing</b>	<b>1,901</b>
<b>Total Expenditures</b>	<b>4,667</b>

Contractual expenditures are projecting a positive variance of \$2.5 M largely due to plant operations and maintenance contracts of \$1.8 M coupled with savings in Alectra Utilities contract and service co-ordination totalling \$0.7 M.

Agencies and Support Payments category is forecasting favourable variance of \$0.3 M due to less uptake on the Protective Plumbing Program (3P).

Capital financing costs has a net overall positive variance of \$1.9 M. The surplus in debt charges of \$5.5 M is offset by the Development Charge (DC) debt charge recoveries of -\$3.6 M. The debt charge surplus is due to the difference in budgeted and forecasted interest rates and the increased timeframe for issuing debt.

## Revenues

Overall total revenues are forecasted to align to budget with a slight unfavourable variance of \$0.1 M projected in overstrength agreements (0.05% to rate related budget).

As of March 2019, Alectra Utilities has migrated to a new billing system. Subsequently, staff had not been able to reconcile monthly rate revenue remittances nor post revenues to the accounting records for March or April 2019. Therefore, the actual rate revenues in Appendix "B" to Report FCS19055 reflect only January and February 2019 results.

Customer sectors, Residential, Multi-Residential, Industrial, Commercial and Institutional are projected to meet budget. However, it is too early to determine if rate revenues will continue to trend to be on budget throughout the summer months. Staff will continue to monitor precipitation and consumption trends through the summer months to provide a more accurate 2019 forecast with the next Variance Report.

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OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

**ALTERNATIVES FOR CONSIDERATION**

N/A

**ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN**

**Our People and Performance**

Hamiltonians have a high level of trust and confidence in their City government.

**APPENDICES AND SCHEDULES ATTACHED**

Appendix “A” to Report FCS19055 – City of Hamilton Tax Operating Budget Variance Report as at April 30, 2019

Appendix “B” to Report FCS19055 – City of Hamilton Combined Water, Wastewater and Storm Systems Rate Operating Budget Variance Report as at April 30, 2019

Appendix “C” to Report FCS19055 – City of Hamilton Budgeted Complement Transfer Schedule

KB/TJH/dt